CENTER TRUST INC
Form 10-K/A
November 21, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [Fee Required]**

For the fiscal year ended December 31, 2001

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [No Fee Required]**

For the transition period from to

Commission File Number: 1-12588

Center Trust, Inc.

(Exact name of registrant as specified in charter)

Maryland	**95-4444963**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

3500 Sepulveda Boulevard, Manhattan Beach, California 90266

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code

(310) 546-4520

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $.01 Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None Registered
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K: o

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $50,237,000 (computed on the basis of $4.57 per share), which was the last sale price on the New York Stock Exchange on March 15, 2002.

As of March 15, 2002, 27,656,405 shares of common stock, Par Value $.01 per share of Center Trust, Inc., were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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Item 6. ***Selected Financial Data***

The following table sets forth selected financial data for the Company. The following data should be read in conjunction with management s discussion and analysis of financial condition and results of operations and all of the financial statements and notes thereto included elsewhere in this Form 10-K.

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(In thousands, except per share & property data)				
Statements of Operations Data:					
Total revenues	$94,903	$131,637	$139,941	$125,573	$86,186
Expenses:					
Interest	32,230	55,019	52,764	46,476	35,100
Property operating costs	33,927	42,289	41,916	39,406	27,196
Depreciation and amortization	19,797	24,065	24,041	23,580	17,894
Write-down of asset held for sale		4,770		21,685	
Reorganization costs	2,613				
Non-recurring items					9,355
General and administrative	5,473	5,626	8,362	5,744	2,877
Total expenses	94,040	131,769	127,083	136,891	92,422
Income (loss) from continuing operations before other items	863	(132)	12,858	(11,318)	(6,236)
Equity in income of management company					19
(Loss) Gain on sale of rental properties	(2,379)	21,245	23,991	1,055	
Minority interests	(508)	(602)	(4,786)	1,055	1,229
(Loss) income from continuing operations	(2,024)	20,511	32,063	(9,208)	(4,988)
Discontinued operations	1,595	776	1,077	1,095	765
(Loss) income before extraordinary item	(429)	21,287	33,140	(8,113)	(4,223)
Extraordinary items early extinguishment of debt	(1,768)	(17,514)	(6,483)		(422)
Net (loss) income	$ (2,197)	$ 3,773	$ 26,657	$ (8,113)	$ (4,645)
Income (loss) from continuing operations per share	$ (0.08)	$ 0.77	$ 1.25	$ (0.43)	$ (0.38)
Discontinued operations per share	0.06	0.03	0.04	0.05	0.06
Extraordinary items per share	(0.06)	(0.66)	(0.25)		(0.03)
Net (loss) income per share, basic and diluted	$ (0.08)	$ 0.14	$ 1.04	$ (0.38)	$ (0.35)
Dividends per share	$ 0.16	$ 0.84	$ 1.44	$ 1.44	$ 1.44
Weighted average shares of common stock outstanding	27,435	26,677	25,697	21,519	13,312

Number of operating properties (at end of period)	35	41	56	63	46
Gross leasable area owned (thousands of sq. ft.) (at end of period)	6,412	7,117	9,398	10,185	7,217

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	As of December 31,				
	2001	2000	1999	1998	1997
Balance Sheet Data:					
Rental properties before accumulated depreciation	$732,818	$776,667	$1,030,689	$1,074,629	$783,279
Total assets	637,073	694,579	951,820	987,021	710,713
Total debt and other liabilities	420,195	471,480	709,122	697,419	519,441
Minority interests	11,225	16,695	15,410	49,231	41,433
Redeemable common stock				9,903	8,385
Stockholders equity	205,653	206,404	227,288	230,468	141,454

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(In thousands)				
Other Data:					
Funds from Operations(1):					
Basic	$ 24,766	$ 30,860	$ 42,477	$ 36,301	$ 21,924
Diluted	24,766	30,860	55,943	50,169	35,793
Cash Flows From:					
Operating activities	$ 24,017	$ 16,912	$ 33,711	$ 32,528	$ 19,559
Investing activities	36,974	244,225	39,793	(219,430)	(110,192)
Financing activities	(60,339)	(260,177)	(74,936)	189,925	88,305

(1) The Company computes funds from operations (FFO) on both a basic and a diluted basis and considers Operating Partnership Units as the equivalent of shares for the purpose of these computations. The diluted basis assumes the conversion of the Company s convertible and exchangeable debentures into shares of common stock as well as other common stock equivalents. On November 6, 2000, the Company repaid, in full, its 7 1/4% exchangeable debentures and on January 16, 2001 the Company repaid, in full, its 7 1/2% convertible subordinated debentures. For further discussion of FFO, see Item 7 Management s Discussion and Analysis of Results of Operations.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The Company adopted Statement of Financial Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144) on January 1, 2002. In accordance with the implementation provisions of SFAS 144, the operating results and gains on property sales of real estate assets sold subsequent to December 31, 2001 are included in discontinued operations in the consolidated statement of operations. The Results of Operations discussion for years ended December 31, 2001, 2000 and 1999 includes operating results for properties disposed of prior to December 31, 2001, but does not include operating results for properties disposed of subsequent to December 31, 2001.

The following discussion should be read in conjunction with the Selected Financial Data and the Company s Consolidated Financial Statements and Notes thereto appearing elsewhere in this Form 10-K/A.

This Annual Report on Form 10-K/A, including the documents that we incorporate by reference, contains forward-looking statements. Also, documents we subsequently file with the SEC and incorporate by reference will contain forward-looking statements. In particular, statements pertaining to our capital resources, portfolio performance and our funds from operation and anticipated market conditions, demographics and results of operations are forward-looking statements. Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described, or that they will happen at all. You can identify forward-looking statements by the use of forward-looking terminology

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such as believes, expects, may, will, should, would, seeks, approximately, intends, plans, pro forma estimates or antic
these words and phrases or similar words or phrases. You can also identify forward-looking statements by discussions of strategy, plans or intentions. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- defaults on or non-renewal of leases by tenants;
- increased interest rates and operations costs;
- our failure to obtain necessary outside financing;
- difficulties in identifying properties to acquire and completing acquisitions;
- difficulties in disposing of properties;
- our failure to successfully operate acquired properties and operations;
- our failure to successfully develop properties;
- our failure to maintain our status as a REIT;
- environmental uncertainties and risks related to natural disasters;
- financial market fluctuations; and
- changes in real estate and zoning laws and increases in real property tax rates.

Our success also depends upon economic trends generally, as well as income tax laws, governmental regulation, legislation, population changes and other matters discussed above in the section entitled Risk Factors.: We caution you, however, that any list of risk factors may not be exhaustive.

Recent Developments

During 2001 and early 2002, we completed a series of steps designed to improve our financial and operating flexibility, allow us to reduce our leverage level, and better enable us to continue to pursue our fundamental strategy of maximizing stockholder value. Those steps included the repayment of $128 million of the 7 1/2% Convertible Subordinated Debentures (Debentures), a reduction of our 2001 dividend, the refinancing of six properties with long-term fixed rate debt and the extension of our Credit Facility (Credit Facility) with General Electric Capital Corporation (GECC). See additional discussion in Liquidity Sources and Requirements.

The Board of Directors announced on March 20, 2002, an increase in the quarterly dividend to $0.06 per share for the first quarter of 2002, compared to $0.04 per share paid during each of the four quarters of 2001. This revised dividend level is designed to enable us to continue to strengthen our balance sheet and provide the funds necessary to reposition and reinvest in our assets while also providing an increase in the return to our shareholders.

Results of Operations

Comparison of the year ended December 31, 2001 to the year ended December 31, 2000.

Rental revenues decreased by $25.6 million to $65.6 million for the year ended December 31, 2001 from $91.2 million for the year ended December 31, 2000. A decrease of $25.8 million resulted from the sale of 16 community shopping centers, five single tenant facilities and a freestanding theater in 2001 and 2000. Revenues from the remaining held properties increased slightly in 2001 compared to 2000.

Expense reimbursements decreased $6.4 million to $23.0 million for the year ended December 31, 2001 from $29.4 million for the year ended December 31, 2000. Of the decrease, $6.5 million resulted from the sale of the properties previously discussed. Similarly, property operating costs decreased by $8.4 million to $33.9 million for the year ended December 31, 2001 from $42.3 million for the year ended December 31,

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2000. Approximately $7.1 million of the decrease was related to the sold properties (excluding those properties included in discontinued operations). The remaining decrease is primarily due to a $1.3 million charge to uncollectible accounts receivable expense in 2000 compared to a $0.3 million charge recorded in 2001.

Interest expense decreased by $22.8 million to $32.2 million for the year ended December 31, 2001 from $55.0 million for the year ended December 31, 2000. The decrease was due to a combination of a decrease in average debt outstanding and lower effective interest rates in 2001 compared to 2000. Average debt outstanding was $410 million in 2001 compared to $625 million in 2000. The lower average debt outstanding was due to the repayment of $128.5 million of 7 1/2% Convertible subordinated Debentures with proceeds from the sale of 22 assets during 2000 and the first half of 2001. The effective weighted average interest rate, excluding the debentures, was 8.0% in 2001 compared to 9.0% in 2000. See additional discussion in Liquidity Sources and Requirements.

Depreciation and amortization expense decreased by $4.3 million to $19.8 million for the year ended December 31, 2001 from $24.1 million for the year ended December 31, 2000. This is primarily due to $4.8 million of lower expenses due to the sale of properties, partially offset by a $.6 million increase in depreciation on held properties.

General and administrative costs decreased $0.1 million from $5.6 million for the year ended December 31, 2000 to $5.5 million for the year ended December 31, 2001. The decrease is due to the partial cost savings related to the reorganization that occurred during the second quarter of 2001. At the end of the second quarter of 2001, the Company recorded a non-recurring Reorganization expense of $2.6 million. The expense consisted of employee severance and other related costs. The Company anticipates greater savings in 2002 from a full year of cost reductions as a result of the reorganization.

The Company reported a net loss of $2.2 million for the year ended December 31, 2001 compared to net income of $3.8 million for 2000. The decrease in net income of $6.0 million in 2001 was primarily due to lower net operating income of $28.5 million from the sale of properties, $2.6 million in reorganization costs, $2.4 million loss on the sale of assets and $1.8 million extraordinary loss related to the sale of properties. The 2001 decrease was partially offset by lower interest expense of $23.5 million and lower depreciation expense of $4.2 million. The net income in 2000 included the gain on sale of assets, net of an extraordinary loss, of $3.7 million and a $4.8 million charge for the impairment of assets held for sale.

Comparison of the year ended December 31, 2000 to the year ended December 31, 1999.

Total revenues decreased by $8.3 million to $131.6 million for the year ended December 31, 2000 from $139.9 million for the year ended December 31, 1999. The decrease was primarily a result of the sale of 12 community shopping centers, three single tenant facilities and a freestanding theater, for a total of 16 properties sold in 2000 compared to the sale of three community shopping centers and five single tenant facilities, for a total of 8 properties sold in 1999. The sold properties account for approximately $11.2 million of the decrease in revenues. This was partially offset by a $3.4 million lease termination fee received from a tenant of one of our community shopping centers.

Interest expense increased by $2.2 million to $55.0 million for the year ended December 31, 2000 from $52.8 million for the year ended December 31, 1999. The increase is primarily due to approximately $4.0 million from higher effective interest rates partially offset by a decrease of approximately $1.8 million from lower average debt outstanding in 2000.

Property operating costs increased $0.4 million to $42.3 million for the year ended December 31, 2000 from $41.9 million for the year ended December 31, 1999. The activity for the year included a provision for uncollectible accounts receivable of $1.3 million and a charge of $0.7 million for the adjustment of an outstanding receivable balance from a city agency recorded in 2000, offset by a decrease of $2.0 million in expenses related to the sold properties.

Depreciation and amortization expense increased by $0.1 million to $24.1 million for the year ended December 31, 2000 from $24.0 million for the year ended December 31, 1999. This is primarily due to

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increased amortization of leasing costs of $0.9 million and increased depreciation from additional assets of $0.3 million, partially offset lower expenses from the sale of properties in 2000 of $1.1 million.

General and administrative costs decreased $2.8 million from $8.4 million for the year ended December 31, 1999 to $5.6 million for the year ended December 31, 2000. The decreases are primarily due to the Company s reorganization in the 4th quarter of 1999 to reduce its operating costs.

Income before other items for the year ended December 31, 2000 was a loss of $0.1 million compared to income of $12.9 million for the same period of 1999. The decrease is due to lower income as a result of the sale of assets, higher interest costs as previously discussed and a $4.8 million charge for the impairment of assets held for sale. At December 31, 2000, the Company was under agreement to sell the Center of El Centro located in El Centro, California and Madera Marketplace located in Madera, California for a combined total of $19.7 million. Carrying value of these assets, adjusted for anticipated closing and other costs, was $24.5 at December 31, 2000.

As previously discussed, the Company sold a total of 16 properties during the year ended 2000. As a result of the sales, debt of $188 million was either repaid or assumed by the buyer. Net proceeds of $127 million was used to reduce the Company s outstanding balance on its Secured Credit Facility (see additional discussion at Liquidity Sources and Requirements). The Company recorded a net gain on the sale of assets of $21.2 million. The Company also recorded an extraordinary loss on the early extinguishment of debt of $17.5 million related to the payment of certain prepayment penalties and the write-off of unamortized deferred financing costs and costs related to the defeasance of a loan with Nomura Asset Capital Corporation.

Selected Property Financial Information

Net Operating Income (defined as operating revenues less property operating costs) for the Company s Properties was as follows:

	Year Ended December 31,		
	2001	**2000**	**1999**
Rental Properties:			
Regional Malls	$16,610	$16,226	$18,018
Community Centers	42,329	68,858	74,067
Single Tenants	1,253	2,952	4,895
Other Income	784	1,312	1,045
Net Operating Income	$60,976	$89,348	$98,025

The following summarizes the percentage of leased GLA (excluding non-owned GLA) as of:

	December 31,		
	2001	**2000**	**1999**
Rental Properties:			
Regional Malls	94.4%	92.1%	90.9%
Community Centers	91.8	93.1	95.0
Single Tenants	100.0	100.0	100.0
Aggregate Portfolio	92.6	93.3	94.9

During 2001, the Company signed leases for approximately 163,693 square feet and renewed approximately 594,809 square feet of community centers leases. Such signed leases resulted in an increase in the overall rent per square foot of the Company s portfolio to $12.02 per square foot at December 31, 2001 from $11.33 per square foot at December 31, 2000.

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Liquidity Sources and Requirements

Through a series of asset sales and debt financing transactions, as well as a modification of the Company s Credit Facility, the Company was able to successfully repay its Debentures that matured on January 15, 2001. Subsequent to the repayment of the Debentures in January 2001, the Company remained focused on the strengthening of its financial stability and flexibility. To aid in strengthening the Company s financial flexibility and stability, on March 26, 2001, the Company announced a revised dividend strategy designed to enable the Company to maximize its retention of capital, reduce its leverage level, and provide financial flexibility, while maintaining its status as a real estate investment trust. Accordingly, the Company decreased its annual dividend for 2001 to $0.16 per share.

With the Debentures repaid, the Company s primary focus in 2002 is to continue to enhance our balance sheet while executing our business plan. Our business plan focuses on leasing our existing centers, stabilizing income, enhancing value, and redevelopment. Our redevelopment plans enable us to meet the changing needs of retailers in our markets while creating value for our shareholders. On March 18, 2002, the Company increased its first quarter dividend to $0.06 per share from the $0.04 per share paid for each of the four quarters of 2001.

On March 20, 2002, the Company extended its Credit Facility with GECC that was to expire on April 1, 2002. Under the new terms, the Credit Facility will expire on April 1, 2004 with the option of the Company to extend for one additional year. The new agreement reduces the maximum commitment from $170 million to $150 million. The Company currently has availability of $13 million under the Credit Facility.

In December 2001, the Company closed on six separate mortgages with total proceeds of $68.7 million. The mortgages have a 10-year term with 30-year principal amortization. The weighted-average fixed interest rate on the six mortgages is 6.94%. The mortgages are not cross-collateralized or cross-defaulted. Three of the mortgages, with combined loan proceeds of $25.1 million, secured by Ross Plaza in Clackmamas, Oregon, Silverdale Shopping Center in Silverdale, Washington and Vancouver Park Place in Vancouver, Washington, closed on December 18, 2001. These assets were previously pledged as collateral for the Company s Credit Facility. The remaining three mortgages, with combined proceeds of $43.6 million, are secured by Mountain Square in Upland, California, Fire Mountain Shopping Center in Oceanside, California and Randolph Plaza in Tucson, Arizona, closed on December 19, 2001. These properties were previously collateral for variable rate, cross-collateralized, mortgages with a combined balance of $33.1 million that were to mature on June 1, 2002. All proceeds, after repayment of existing loans, were used to reduce the outstanding balance on the Company s Credit Facility.

On July 6, 2001, the Company refinanced an existing mortgage on North Mountain Village, located in Phoenix, Arizona. The $7.1 million mortgage bears interest at 7.68% and matures in 2011.

During the second quarter of 2001, the Company sold one community shopping center and one single tenant facility. The assets sold were K-Mart Rocklin, an 86,000 square foot single tenant facility located in Rocklin, California and Marshall s Plaza, a 79,000 square foot shopping center located in Modesto, California. After repayment of debt of $1.7 million, net proceeds of $6.7 million were used to reduce the outstanding balance on the Company s Credit Facility.

During the first quarter of 2001, the Company sold three community shopping centers and one single tenant facility for a combined sales price of $38.4 million. The assets sold included Westgate North Shopping Center, a 104,000 square foot shopping center located in Tacoma, Washington, Center of El Centro, a 179,000 square foot shopping center located in El Centro, California, Madera Marketplace a 169,000 square foot shopping center located in Madera, California, and K-Mart Madera, a 86,000 square foot single tenant facility, located in Madera, California. After repayment of debt of $7.2 million, net proceeds of $26.6 million were used to reduce the outstanding balance of the Company s Credit Facility.

During 2002, the Company has debt maturities of $59.1 million. Of this balance, three mortgages totaling $50.2 million each have three one-year extensions available to the Company. The remaining balance of $8.9 million represents one non-recourse mortgage secured by our Date Palm Center located in Cathedral City, California. We are currently negotiating with the lender to modify the terms of this non-recourse agreement and anticipate that we will be able to successfully execute an extension and amendment to this loan before it matures.

The Company anticipates that its cash from operations combined with the availability under the Credit Facility will be sufficient to cover its capital and operating cash requirements in the next twelve months. Certain elective redevelopment projects will only be commenced if the Company is successfully able to obtain separate financing for such expenditures.

Funds from Operations

The Company considers Funds From Operations (FFO) to be an alternative measure of the performance of an equity REIT since such measure does not recognize depreciation and amortization expenses as operating expenses. FFO is defined, as outlined in the October 1999 White Paper, by the National Association of Real Estate Investment Trusts (NAREIT) as net income plus depreciation and amortization of real estate, less gains or losses on sales of properties. Additionally, the definition also permits FFO to be adjusted for significant non-recurring items. Funds from operations do not represent cash flows from operations and net income as defined by generally accepted accounting principles and should not be considered as an alternative to net income or cash flows from operations and should not be considered as an alternative to those indicators in evaluating the Company s operating performance or liquidity. Further, the methodology for computing FFO utilized by the Company may differ from that utilized by other equity REITs and, accordingly may not be comparable to such other REITs.

The Company computes FFO on both a basic and a diluted basis. The diluted basis assumes the conversion of the convertible and exchangeable debentures into shares of common stock. The following table summarizes the Company s computation of FFO (including discontinued operations) and provides certain additional disclosures (dollars in thousands):